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INFO OCT-01 ISO-00 EB-07 IGA-01 AID-05 OMB-01 FRB-03

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SUBJECT: PL-480 TITLE I

REF: STATE 033802

1. SUMMARY. FAO FIGURES SUFFER SERIOUS DEFICIENCIES BOTH AS TO TIME SPAN COVERED AND DEFINITION OF HAITIAN NEEDS, AND THUS PROVIDE AN INADEQUATE AND EVEN MISLEADING BASIS FOR DISCUSSION OF PROPOSED PL 480 TITLE I PROGRAM. PROPOSED PROGRAM WILL FINANCE A PART OF THE IMPORTS NEEDED FOR SEVEN-MONTH PERIOD BEGINNING JUNE 1, 1975, A PERIOD WHEN WE AND HAITIANS EXPECT NEEDS TO INCREASE SHARPLY WHILE HAITIAN ABILITY TO FINANCE SUCH IMPORTS WILL BE DECLINING. REPORT, ON OTHER HAND, COVERS PERIOD JUNE 1, 1974 THROUGH MAY 31, 1975, A TIME WHEN COMMERCIAL IMPORTS ACTUALLY DECLINED BECAUSE OF EXCEPTIONAL FACTORS. PROGRAM FORMS PART OF INTEGRATED USG EFFORT TO IMPROVE CONDITIONS IN RURAL HAITI AND UPGRADE NUTRITION. USE OF COUNTERPART FUNDS TO PROMOTE INCREASED AGRICULTURAL PRODUCTION AND THUS PROVIDE LONGTERM BENEFITS FOR HAITIAN RURAL POPULATION IS AN ADDED BENEFIT, ALTHOUGH NOT CHIEF REASON FOR PROPOSED PROGRAM. END SUMMARY.

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2. FAO REPORT. REPORT DOES NOT DISCUSS AT ALL HAITIAN GRAIN

NEEDS FOR PERIOD BEGINNING JUNE 1, 1975, WHICH IS ALSO EARLIEST DATE ANY DELIVERIES CAN BE EXPECTED FROM FY 75 PL 480 TITLE I PROGRAM. REPORT STATISTICS ON "COMMERCIAL IMPORTS" APPEARS TO BE ACCURATE FOR THE TIME PERIOD, AND ARE EVIDENTLY BASED ON ORDERS ACTUALLY PLACED BY GOVERNMENT-OWNED FLOUR MILL FOR DELIVERY BY END OF FINANCIAL YEAR (MAY 31, 1975). HOWEVER, FOR REASONS DESCRIBED IN PARAGRAPH 4 BELOW, SPECIAL CIRCUMSTANCES APPLY TO CONSUMPTION DURING THIS PERIOD AND IT CANNOT THEREFORE BE TAKEN AS ACCURATE ASSESSMENT OF EITHER NEEDS OR EXPECTED COMMERCIAL PURCHASES FOR REMAINDER OF CALENDAR YEAR. THE REPORTS ON "FOOD AID COMMITTED" ALSO APPEAR TO BE CORRECT. SINCE FAO REPORT DOES NOT DEAL WITH CRITICAL PERIOD AFTER JUNE 1, 1975, EMBASSY IS PROVIDING AS MUCH DETAIL AS POSSIBLE IN THIS TELEGRAM ON FACTORS AFFECTING HAITIAN NEED FOR GRAINS, EXPECTED CHANGES IN DEMAND PATTERN OVER THE NEXT 12 MONTHS, AND THE ACTUAL CONSUMPTION PATTERN FOR FLOUR IN THE COUNTRY.

3. GENERAL FACTORS AFFECTING HAITIAN DEMAND FOR WHEAT.- ALTHOUGH HAITIAN ABILITY TO CONSUME DONATED FOOD PRODUCTS IS HIGH, THE AMOUNT OF AID WHICH USG OR INTERNATIONAL GROUPS CAN PROVIDE IS LIMITED BY THE ADMINISTRATIVE RESOURCES OF VOLUNTARY AGENCIES AND GOH FINANCIAL AND ADMINISTRATIVE CAPABILITIES AND IS AT PRESENT CLOSE TO MAXIMUM LEVEL. HAITIAN CONSUMPTION OF COMMERCIAL WHEAT IS AFFECTED BY A SERIES OF FACTORS, INCLUDING: PRICE OF FLOUR ON LOCAL MARKET (DEMAND WILL DROP AT EACH PRICE INCREASE AND ONLY RESUME ITS UPWARD CLIMB AFTER A DELAY OF FROM 3 WEEKS TO 2 MONTHS); AVAILABILITY OF DOMESTICALLY PRODUCED FOODSTUFFS (CORN, MANIOC, RICE, MANGOES); EASE OF DISTRIBUTION (I.E., THE CONDITION OF THE ROADS); THE AMOUNT OF CASH IN THE HANDS OF THE RURAL POPULATION; AND THE AVAILABILITY OF FOREIGN EXCHANGE TO PURCHASE WHEAT. AS A GENERAL RULE OF THUMB, GOH AND FLOUR MILL MANAGEMENT EXPECT CONSUMPTION OF FLOUR TO INCREASE BY AT LEAST 5 PERCENT PER YEAR; IF RURAL POPULATION RECEIVES A GREATER CASH INCOME, INCREASE MAY BE HIGHER. (BREAD IS USUALLY FIRST OUTSIDE FOOD WHICH PEASANTS WILL PURCHASE IF CASH IS AVAILABLE.)

4. RECENT HISTORY OF WHEAT IMPORTS. HAITIAN COMMERCIAL IMPORTS OF WHEAT HAVE GROWN STEADILY FROM 1969 UNTIL MID-1974. WHEAT IMPORTS TOTALLED (IN METRIC TONS) 31,285 IN 69/70, 47,163 IN 70/71, 53,176 IN 71/72, 76,690 IN 72/73, 99,663 IN 73/74, AND WILL TOTAL 87,839 IN 74/75. IMPORTS DURING THE 73/74 FINANCIAL YEAR WERE ABNORMALLY HIGH BECAUSE OF LOWER THAN EXPECTED DOMESTIC PRODUCTION OF CERTAIN FOODS, PARTICULARLY RICE. THE LEVEL FOR 1974/75 IS LOWER BECAUSE (A) ONE-TIME SPECIAL IMPORTS FOR 73/74 ARE NOT BEING REPEATED IN VIEW OF NORMAL HAITIAN PRODUCTION OF LOCAL FOODSTUFFS; (B) DOMESTIC DEMAND WAS REDUCED BY SERIES OF PRICE INCREASES, WHICH WERE ALLOWED IN THE RETAIL PRICE OF FLOUR THROUGH CALENDAR YEAR 1974, AND DEMAND IS JUST NOW BEGINNING TO RECOVER. HOWEVER, EVEN PURCHASES AT THIS LEVEL HAVE CAUSED SERIOUS STRAIN TO THE ECONOMY.

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THE NATIONAL BANK HAS WITHHELD PERMISSION TO TRANSFER DOLLARS TO PAY FOR THE WHEAT IN VIEW SERIOUS FOREIGN EXCHANGE PROBLEM. AS A RESULT, THE COMPANY HAS NOT ONLY EXHAUSTED CREDIT PROVIDED BY THE CANADIAN GOVERNMENT BUT HAS RUN UP A DEBT OF OVER \$1.5 MILLION WITH MAPLE LEAF OF CANADA (TECHNICAL MANAGERS OF MILL). THIS USE OF SHORT TERM CREDIT CREATES PROBLEMS BECUASE OF HIGH INTEREST RATE AND BECUASE IT MAY NOT BE CONSONANT WITH THE EXPECTED TERMS OF THE NEW IMF STAND-BY AGREEMENT. GOH HAS ALREADY PLACED ORDERS FOR YEAR ENDING MAY 31, 1975, SINCE THERE WAS NO ASSURANCE THAT HAITI WOULD RECEIVE PL 480 TITLE I WHEAT, AND SINCE ORDERS MUST BE PLACED EARLY IN VIEW OF DIFFICULTY IN FINDING SHIPS WHICH CAN DOCK AT MILL WHARF.

5. EXPECTED DEMAND FOR FLOUR FOR YEAR BEGINNING JUNE 1, 1975. BOTH MILL AND GOH OFFICIALS EXPECT DEMAND TO BE CONSIDERABLY HIGHER IN FORTHCOMING YEAR, SINCE (A) WHEAT PRICES HAVE DECLINED AND GOH MAY BE ABLE TO REDUCE PRICE OF FLOUR; AND (B) THE SUBSTANTIAL LOCAL EMPLOYMENT ON RECONSTRUCTION OF THE NORTH AND SOUTH HIGHWAYS AND THE JACMEL ROAD SHOULD PROVIDE INCREASED CASH TO PEASANTS, WHICH WILL INCREASE THE DEMAND FOR FLOUR.

6. ABILITY OF GOH TO IMPORT WHEAT. GOH IS VERY CONCERNED AT POSSIBILITY THAT FOREIGN EXCHANGE WILL NOT BE AVAILABLE TO PURCHASE REQUIRED COMMERCIAL QUANTITIES OF WHEAT IN ORDER MEET RISING DEMAND FOR FLOUR. SITUATION WILL BECOME ACUTE IN JUNE. THUS PL 480 PROGRAM IS REQUIRED IN ORDER PERMIT CONTINUED IMPORTATION OF THIS VITAL FOOD.

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7. DISTRIBUTION OF FLOUR. THE GREATEST PROPORTION OF THE GRAIN PRODUCTS PROVIDED BY FOOD AID PROGRAMS WILL GO TO AREAS OUTSIDE OF PORT AU PRINCE. COMMERCIAL IMPORTS, HOWEVER, MUST BE SOLD FOR CASH, AND THUS FLOUR PRODUCED BY MILL FINDS ITS CHIEF MARKET IN PORT AU PRINCE, RATHER THAN IN THE SUBSISTENCE AREAS OF THE ECONOMY. ACCORDING TO FLOUR MILL, DISTRIBUTION OF FLOUR BY PROVINCES IS AS FOLLOWS: CAP HAITIEN 7.5 PERCENT, JACMEL 5.0 PERCENT, PORT DE PAIX 4.0 PERCENT, CAYES 7.0 PERCENT, JEREMIE 3.0 PERCENT, SAINT MARC 2.0 PERCENT, GONAIVES 4.0 PERCENT, MIRAGOANE 0.5 PERCENT, PORT AU PRINCE 67.0 PERCENT. MANAGER OF MILL STATED THAT SHIPMENTS OF FLOUR TO PROVINCES ARE EXPECTED TO INCREASE SHARPLY WITH IMPROVED ROAD SYSTEM BOTH BECAUSE DISTRIBUTION WILL BE EASIER AND BECAUSE FARMERS ARE EXPECTED TO HAVE MORE CASH ONCE THEY HAVE ACCESS TO MARKETS.

8. RE PARA 7 REFTTEL ON NUTRITION PROBLEM. TITLE I PROGRAM SHOULD HELP ADDRESS NUTRITIONAL PROBLEMS OF HAITI AND IS PART OF INTEGRATED USG EFFORT TO IMPROVE CONDITIONS IN RURAL HAITI. TITLE I PROGRAM WILL INCREASE OVERALL LEVEL OF FOOD SUPPLIES AND THEREBY PERMIT FARMERS GROWING CASH CROPS TO INCREASE THEIR PER CAPITA CONSUMPTION OF BASIC GRAINS. IN MANY CASES, FARMERS HAVE LAND WHICH IS BEST
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SUITED TO RAISING CASH CROPS, E.G., COFFEE, AND THESE FARMERS WILL USE CASH INCOME TO PURCHASE BASIC GRAINS, INCLUDING WHEAT. AT PRESENT, APPROXIMATELY 33 PERCENT OF WHEAT GOES TO RURAL AREAS IN FORM OF FLOUR AND THE REMAINING 67 PERCENT, WHICH STAYS IN PORT-AU PRINCE, SUBSTITUTES FOR HAITIAN FOOD GRAINS WHICH REMAIN IN COUNTRYSIDE FOR USE OF RURAL PEOPLE. AID WILL ALSO LAUNCH A NUTRITION PROJECT IN FY 1976 WHICH WILL COMBINE SPECIAL FEEDING FOR MALNOURISHED CHILDREN WITH NUTRITION EDUCATION FOR MOTHERS. THUS, PL 480 TITLE I IS AN ESSENTIAL PART OF TOTAL AID EFFORT TO IMPROVE CONDITION OF POOR PEOPLE IN RURAL AREAS. THIS EFFORT ALSO INCLUDES TITLE II PROGRAMS BUT TITLE II RELIEF FOODS CANNOT APPROPRIATELY MEET NEED FOR INCREASED SUPPLIES OF FOODSTUFFS ON MARKET.

9. RE PARA 7 ON USE COUNTERPART FUNDS: SALES PROCEEDS WILL BE USED FOR PROJECTS ON RURAL AREAS WHICH WILL LEAD TO INCREASES IN AGRICULTURAL PRODUCTION. SPECIFIC PROJECTS WILL BE DETERMINED THROUGH JOINT CONSULTATION BETWEEN GOH AND USAID. THIS USE OF COUNTERPART FUNDS FROM TITLE I PROGRAM SHOULD DEFINITELY BENEFIT RURAL PEOPLE OF HAITI.
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